

Message Text

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USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 07894

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: XGDS-1

TAGS: EFIN. UK

SUBJECT: H.M. TREASURY VIEWS ON OECD MINISTERIAL MEET-
ING, MAY 20 EC FINANCE MINISTERS COUNCIL AND
INTERNATIONAL MONETARY QUESTIONS.

REF: BRUSSELS 4497 AND BRUSSELS 4519

SUMMARY: H.M. TREASURY DOES NOT EXPECT TO LAUNCH ANY
SURPRISES AT OECD MINISTERIAL, BUT SEES POSSIBILITIES FOR
BILATERAL CONTACTS AS VERY IMPORTANT IN TRYING TO INSURE
A SUCCESSFUL OUTCOME TO JUNE IMF INTERIM COMMITTEE SESSION
EC FINANCE MINISTERS MAY 20 SESSION DID NOT RESULT IN ANY
NOTICEABLE SHIFT FROM G-10 POSITIONS. CHANCELLOR HEALEY
IN HIS OECD PRESENTATION EXPECTED TO AGAIN CITE NEED FOR
STRONGER COUNTRIES TO REFLATE MORE QUICKLY. END SUMMARY.

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1. FINANCIAL ATTACHE HAD TOUR D'HORIZON WITH CHRISTOPHER FOGARTY, DEPUTY SECRETARY, H.M. TREASURY, WHO WILL BE SENIOR H.M. TREASURY CAREER OFFICIAL AT NEXT WEEK'S OECD MINISTERIAL MEETING (ALTHOUGH SIR DEREK MITCHELL WILL BE AVAILABLE ON WEDNESDAY EVENING). FROM AN H.M. TREASURY POINT OF VIEW, FOGARTY REPORTED THERE WOULD BE NO SURPRISES. EDMUND DELL, PAYMASTER GENERAL. WILL REPRESENT THE CHANCELLOR DURING THE FIRST DAY'S SESSIONS, ESSENTIALLY TO PROTECT H.M. TREASURY INTERESTS. IT IS NOT CLEAR WHETHER OR NOT DELL WILL MAKE ANY ACTUAL INTERVENTIONS. CHANCELLOR HEALEY WILL BE PRESENT THE SECOND DAY. HEALEY IS PLANNING REMARKS UNDER THE AGENDA ITEM ON THE WORLD ECONOMIC OUTLOOK WHICH WILL BE SIMILAR TO THOSE MADE THE WEEK BEFORE LAST BY UK DELEGATE TO WP-3. H.M. TREASURY IS INCREASINGLY CONCERNED THAT WORLD ECONOMIC UPTURN MAY NOT TAKE PLACE AS QUICKLY AS EARLIER FORECAST. BILATERAL UK-GERMAN TALKS LAST WEEK LED UK TO CONCLUDE THAT THE GERMANS ARE LESS CERTAIN NOW THAN THEY HAD BEEN THAT A STRONG ECONOMIC UPTURN IS IN THE OFFING THIS YEAR. EQUALLY UK IS NOT FULLY CONVINCED THAT U.S. ADMINISTRATION STATEMENTS ARE TOTALLY CORRECT CONCERNING TIMING OF UPTURN IN THE U.S. THESE FEARS MAY BE REFLECTED IN GENERALIZED INTERVENTIONS CONCERNING THE WORLD OUTLOOK AS WELL AS POSSIBLY BY TRADE MINISTER PETER SHORE DURING DISCUSSION OF RENEWED TRADE PLEDGE. QUESTION CURRENTLY UNDER DISCUSSION IN H.M. TREASURY IS WHETHER TO OPENLY CRITICIZE JAPAN FOR ITS FAILURE TO ADEQUATELY REFLATE AND IF SO HOW SHARP THE CRITICISM SHOULD BE.

2. ONLY OTHER SUBSTANTIVE COMMENT ON OECD MINISTERIAL MEETING WAS THAT UK INTERMINISTERIAL GROUP WORKING ON THE UK'S COMMODITY PROPOSALS HAS NOT REACHED FIRM CONCLUSIONS ON HOW THE PLANS SHOULD BE FINANCED. H.M. TREASURY TENDS TO LEAN TOWARDS A LEVY SYSTEM RATHER THAN DIRECT GOVERNMENT PAYMENTS FROM THE TREASURY SUPPORTED THROUGH TAXES, BUT IN CONSIDERING DIFFERENT COMMODITIES DIFFICULTIES EMERGED WITH EITHER POTENTIAL SOLUTION. THE GERMAN GOVERNMENT ALSO INVOLVED IN HEAVY INTERDEPARTMENTAL DISCUSSIONS ON HOW TO FINANCE SUCH SCHEMES, AND RESULT OF GERMAN DELIBERATIONS COULD HAVE SOME IMPACT ON U.K. VIEWS.
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3. UK CAREER OFFICIAL PRESENT AT THE EC FINANCE MINISTERS SESSION WAS SIR DEREK MITCHELL; FINANCIAL ATTACHE WAS UNABLE TO SEE MITCHELL THIS WEEK BUT BASED ON HIS REPORTS, FOGARTY AND ANOTHER H.M. TREASURY OFFICIAL CONCERNED WITH G-10 MATTERS CONFIRMED BRUSSELS REFTELS ON MAY 2L EC FINANCE MINISTERS SESSION. UK SEES FRANCE ISOLATED ON GOLD AND EXCHANGE RATE REGIME, BUT PARADOXI-

CALLY EXPECTS THAT US AND FRANCE SHOULD DO THEIR BEST IN
BILATERAL DISCUSSIONS TO SETTLE THEIR RESPECTIVE DIFFER-
ENCES. ONE SOURCE SUMMED UP SESSION SAYING THERE WERE NO
SHIFTS AT EC FINANCE MINISTERS MEETING FROM POSITIONS
ALREADY TAKEN IN G-10 DEPUTIES, WITH FOURCADE BEING ADAM-

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ANT IN MAINTAINING FRENCH POSITION. AS UK SEES IT, UNDER-
LYING THE DISCUSSIONS IS QUESTION IN THE MINDS OF MOST EC
DELEGATES ABOUT THE DEGREE OF SUCCESS THAT THE INTERIM
COMMITTEE CAN EXPECT TO ACHIEVE IN JUNE.

4. ON THE MAJOR ISSUES, EC MEMBERS LOOK (A) TO THE U.S.
TO MAKE SOME SHIFT IN ITS POSITION ON IMF QUOTAS AND (B)
EXPECT THE FRENCH TO MAKE SOME COMPROMISE IN THEIR INTRAN-
SIDENT POSITION ON GOLD AND THE FUTURE OF EXCHANGE RATE
REGIME. DURING THE FINANCE MINISTERS PRIVATE LUNCHEON,
CHANCELLOR HEALEY REPORTEDLY ATTEMPTED TO PUSH FOURCADE
INTO SOME INDICATION OF THE FRENCH FALLBACK POSITION, BUT
FOURCADE DID NOT RISE TO THE BAIT. UK IS HOPEFUL THERE

CAN BE AGREEMENT ON GOLD THROUGH ENABLING PROVISION, AND THAT THE FRENCH WILL SEE THEMSELVES AS ISOLATED ON THE EXCHANGE RATE QUESTION FOLLOWING THE LATEST IMF DRAFT, WHICH THE UK SEES AS BETTER FROM A U.S. POINT OF VIEW.

5. SOURCE SAID THAT THE INTEREST RATE SUBSIDY QUESTION UNDER THE IMF OIL FACILITY WAS NOT DISCUSSED BY THE EC
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FINANCE MINISTERS. UK IS REFLECTING ON UNDER SECRETARY BENNETT'S G-10 PROPOSALS, BUT IS NOT TERRIBLY HOPEFUL THAT THE TECHNICAL DIFFICULTIES CAN BE SETTLED SATISFACTORILY. SOURCE EXPECTED THE FRENCH WOULD LASH THEMSELVES INTO A FRENZY ON THIS POINT.

6. ON OTHER POINTS COVERED AT EC FINANCE MINISTERS SESSION, FOGARTY SAID THAT IF THE EC REFERENDUM VOTE IS POSITIVE, THE UK WILL BE A POTENTIAL BORROWER UNDER THE EC COMMON BORROWING FACILITY BUT NOTHING MORE DEFINITE CAN BE SAID AT THIS TIME PENDING BALANCE OF PAYMENTS DEVELOPMENTS IN THE NEXT FEW MONTHS AND TREND OF CAPITAL INFLOWS FROM OPEC COUNTRIES.

7. UK SOURCES DID NOT SHOW MUCH PRACTICAL INTEREST IN THE FOURCADE QUESTIONS AND PROPOSALS ON FRENCH REENTRY INTO THE SNAKE. UK CONSIDERS THAT FRENCH PROPOSALS TO MAINTAIN SNAKE/DOLLAR TARGET RATES MIGHT BE HARD TO IMPLEMENT IN PRACTICE AND COULD BE QUITE COSTLY, ESPECIALLY GIVEN VARIATIONS IN DM/DOLLAR RATE DURING RECENT MONTHS. FOR THE UK'S PART, HOWEVER, THE DISCUSSION WAS LARGELY ACADEMIC BECAUSE UK SEES NO POSSIBILITY OF REJOINING THE SNAKE IN THE FORESEEABLE FUTURE. COMMENT: BECAUSE

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OF TRAVELING SCHEDULES AND HOLIDAYS OF U.K.
OFFICIALS (FRIDAY, MAY 22, IS AN H.M. TREASURY HOLIDAY IN CONNECTION WITH ONE OF THE QUEEN'S OFFICIAL PARTIES), WE HAVE NOT YET BEEN ABLE TO GET INFORMED U.K. TREASURY COMMENT ON GISCARD D'ESTAING'S MAY 21 LE FIGARO INTERVIEW, WHICH ACCORDING TO U.K. PRESS, QUOTED HIM AS SAYING RETURN OF FRANC TO SNAKE WAS LIKELY TO GIVE POWERFUL STIMULUS TO EUROPEAN ECONOMIC AND MONETARY UNION. "THAT IS THE OBJECT OF THE DECISION BUT WITH ONE GREAT DIFFICULTY WHICH ARISES FROM THE PARTICULAR SITUATION OF BRITAIN, FROM THE SERIOUS AND IT SEEMS LASTING DIFFERENCES BETWEEN THE ECONOMIC AND MONETARY EVOLUTION OF BRITAIN AND THAT OF THE GROUP OF WESTERN COUNTRIES... BUT THIS IS NO REASON WHY THE OTHER MEMBERS OF THE COMMUNITY SHOULD NOT PURSUE THIS OBJECTIVE OF ECONOMIC AND MONETARY UNION." AS NOTED IN THIS AND OTHER MESSAGES (LONDON 7544 NOTAL), UK SOURCES TELL US THAT IN EC MONETARY AND FINANCE MINISTERS SESSIONS, UK DELEGATES HAVE ON OCCASION BAITED FRENCH AND BEEN SHARPLY CRITICAL OF THEIR POSITION. WE CAN ONLY SPECULATE THAT GISCARD'S COMMENT MAY REFLECT CONFIDENTIAL

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SOME FRENCH PIQUE, AND WOULD WELCOME ANY COMMENTS FROM EMBASSY PARIS. END COMMENT.

8. UK TREASURY DELEGATES AT THE OECD MINISTERIAL SESSION WILL BE DOING THEIR BEST THROUGH BILATERAL DISCUSSIONS TO ATTEMPT TO LAY THE GROUNDWORK FOR A SUCCESSFUL JUNE INTERIM COMMITTEE MEETING. UK CONSIDERS IT "EXTREMELY WRONG NOT TO HAVE A POSITIVE OUTCOME" BECAUSE OF THE PRACTICAL IMPORTANCE OF THREE MAJOR ISSUES; E.G., IMF QUOTAS; THE STATUS OF IMF ARTICLES; THE VIEW THAT WILL BE

FORMED INTERNATIONALLY ABOUT THE EFFECTIVENESS OF THE
INTERIM COMMITTEE. UK THEREFORE SEES A POWERFUL CASE FOR
MAKING A MAJOR EFFORT (USING OPPORTUNITY OF BILATERAL
CONTACTS AT OECD MINISTERIAL MEETING) TO INSURE A SUCCESS-
FUL INTERIM COMMITTEE SESSION AND DISPERSE FATALISTIC
ATTITUDES WHICH ARE BEGINNING TO APPEAR AMONG SOME EC AND
G-10 MEMBERS. CANADA ESPECIALLY WAS MENTIONED IN THIS
CONTEXT.

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